

Friday, July 6th 2018

Dear Mustafa,

In preparing for my annual pilgrimage to the wifi-free valleys of the Cevennes National Park in France I have been reviewing our old pieces to remind me on what we were thinking in the past. One piece written in November 2012 jumped out at me, we called it 'Resurrecting Reflation'.

In it we introduced Takahashi Korekiyo, finance minister of 1930s Japan. He combined massive Quantitative Easing with deficit spending to propel Japan out of its slump. The result...the equity markets tripled, employment soared, and inflation decreased. Sadly for Korekiyo he paid for this easy money with his life. The loose money went into the military and when he tried to turn this tap off the group of army thugs visited him and cut him to pieces.

In 2012 it was only Ben Bernanke who was engaging in serious QE and we suggested that we should not be surprised to experience a similar outcome. Well Draghi, Kuroda and Carney soon joined the party and what a ride we have had.

We have enjoyed a significant rise in asset prices, be they in equities, fixed income, or real estate. However, this has coincided with continued stagnation in income - and this rise in asset prices has only highlighted the disparity between income and asset growth. So resentment has simmered in the electorates of the developed world.

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The cost of these policies, like in Takahashi's time, is being paid years after the event. QE and deficit spending has brought unexpected and unsavoury guests to the political dinner table, invited there by the angry electorates. In 2012 we did not know who they would be, now we do and the guest list is nearly complete.

Our guest include those on the edge of acceptability; the kind of characters who have provided diversionary entertainment for decades. These are now the main guests, sitting on both the Left and Right sides of our table: Trump & Bernie, Jacob & Jeremy, the Europeans leaders of AfD, Podemos & LegaNord. These couplings are the costs of QE's best intentions. These new guests bring with them their outlandish ideas to our desperate mainstream, that is struggling to find a vision of the future. The fringe is now in charge because the centre is bankrupt of ideas.

If we fast-forward another 5 years from now I only see this guest list expanding, all the while the central bankers silently attempt to skulk away. In the past both parties eventually collided, with the new guests prevailing.

I think I need a holiday! Chris.